



The Intellectual Property Law Section of
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32nd Annual Intellectual Property Law Institute

Best Practices in IP Licensing

Kevin D. DeBré



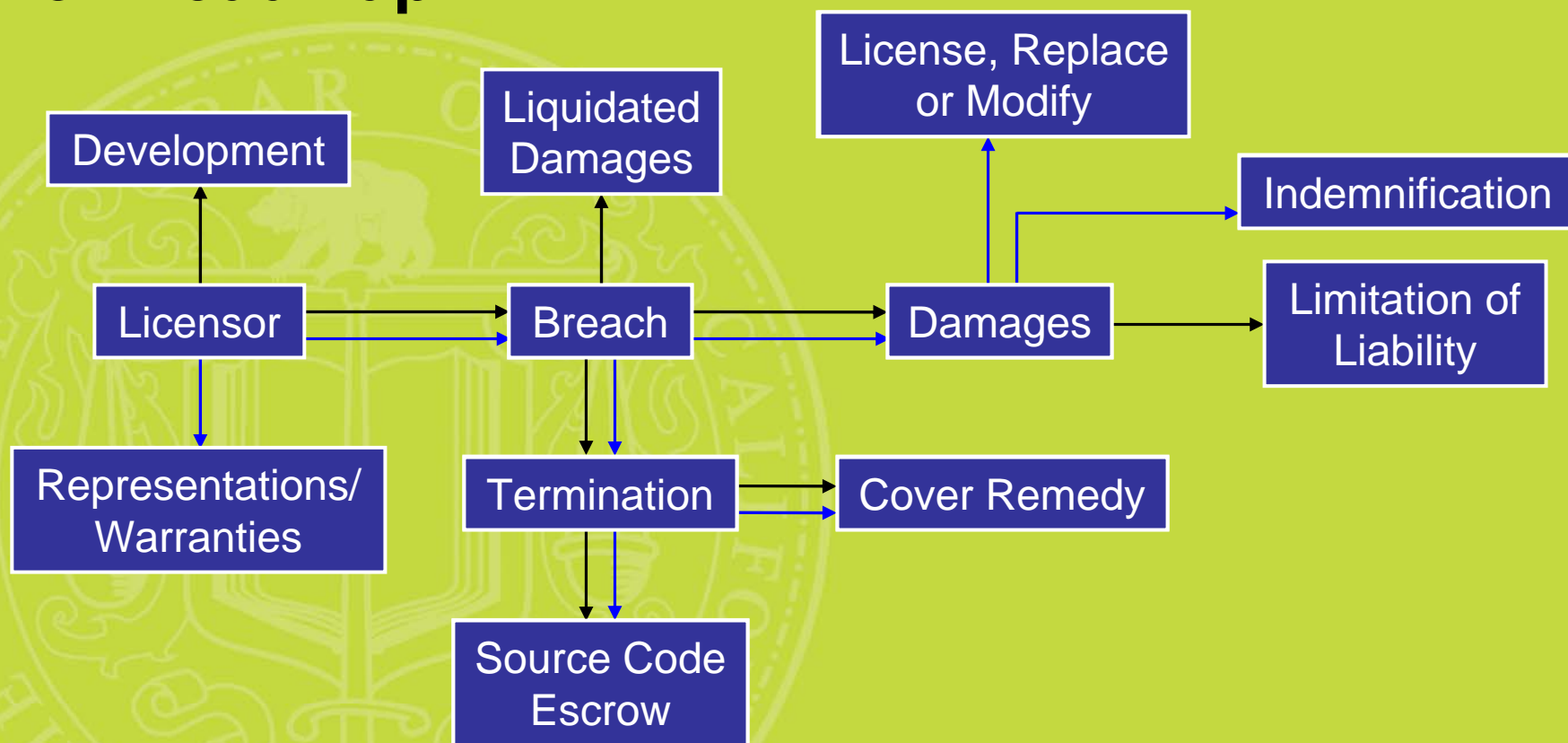
Michael Plumleigh





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The “Roadmap”





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Termination of License

“This Agreement may be terminated by either party for cause immediately in the event the other party breaches any material provision of this Agreement and fails to fully cure such breach within thirty (30) days of written notice describing the breach.”



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Limited Termination Right

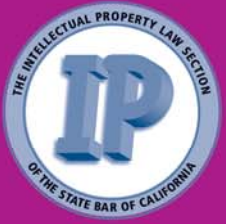
“Only in the event of Licensee’s *material breach* of its obligations to *comply with the license provisions* shall Licensor have the right to terminate Licensee’s rights granted hereunder. Otherwise, Licensor not have any right to terminate or rescind this Agreement or enjoin Licensee’s use of the Licensed Work.”



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Post-Termination Rights and Obligations

“All rights granted hereunder shall immediately terminate and automatically revert to Licensor upon expiration or any termination of this Agreement. Licensee shall cease all use of the Licensed Marks and the manufacture of all Licensed Products on the effective date of termination or expiration.”



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Post-Termination Sell-Off Rights

“Upon expiration or any termination of this Agreement, Licensee may, on a non-exclusive basis for a period of ninety (90) days, sell only those units of the Licensed Products which are on hand in Licensee’s inventory, in transit or in process of manufacture on the effective date of termination or expiration . . .”



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Post-Termination Sell-Off Rights

“ . . . provided that: (i) all such sales shall subject to all of the terms and conditions of this Agreement, (ii) no defective or unapproved Licensed Products are sold and (iii) Licensee refrains from distribution of any Licensed Products at volume levels significantly above and at price levels far below Licensee’s prior sales practices so as to disparage the Licensed Products or dilute the value of the Licensed Marks.”



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Royalty and License Fee Arrangements

The term “royalty” originated in England where for centuries the gold and silver mines were the property of the Crown; such “royal” metals could be mined only if a payment (“royalty”) were made to the Crown.





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Royalties: Percentage of Price

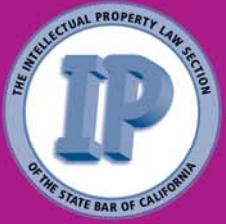
“***Net Sales Price***” means the total invoiced sales price for the license or distribution [of Licensed Product] to an unaffiliated third party by Licensee or its affiliates, less the following deductions to the extent actually incurred: (i) shipping or insurance charges, (ii) sales taxes and customs duties, (iii) refunds for returned goods, and (iv) reseller discounts (to the extent not already reflected in the invoiced price).



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Royalties: Percentage of Revenues

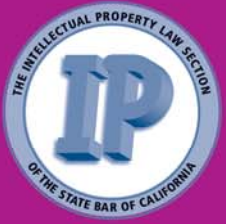
“***Net Revenues***” means gross revenues received by Publisher from the sale or license of the Game, less agent fees, platform fees, allowances, any federal, state, local or foreign withholding, sales, excise or value added taxes, freight, duties, returns, discounts, credits, and markdowns (including, but not limited to, price protection).”



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Royalties: Minimum

“[Beginning with the calendar year commencing _____, 200_,] Licensee will guarantee a minimum annual royalty payment to Licensor. The minimum will be \$_____ in calendar year 200_ and shall increase at ____% per year thereafter. If earned royalties paid on Net Sales occurring during a year do not equal or exceed the minimum, Licensee may pay the difference within 45 days after the end of such year. In the event Licensee fails to pay Licensor the minimum royalty as required for a year, the license granted hereunder to Licensee shall, at Licensor’s sole discretion, become nonexclusive thereafter.”



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Royalties: Tiered

“Licensee will pay a royalty on its Net Sales of any products of [type X] made by or under the authority of Licensee. The royalty rate shall be ____% on the first \$_____ of Net Sales in any calendar year, ____% on the next \$_____ of Net Sales in such year and ____% on any other Net Sales in such year. [However, the royalty rates specified in the immediately preceding sentence shall be reduced by half until the aggregate dollar amount of such reduction equals the up-front fee paid pursuant to Section ____]”



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Royalties: Step-Down

“Notwithstanding anything else in this Agreement, the percentage royalty rates [and the dollar amounts] specified above shall be reduced as follows: [(a)] by half for any items sold into a country where no patent licensed hereunder (with valid claims covering the items [or the manufacture or use thereof]) (i) has issued (until such a patent issues) and (ii) remains in effect; [a claim will be considered valid until declared invalid by a final court order] ...”



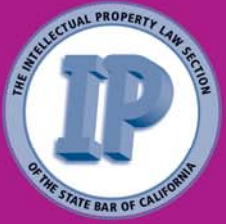
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Royalties: Step-Down

Other options:

Consider reducing royalties by amount of Licensee's damages and costs incurred in connection with (i) infringement claims (ii) acquiring necessary third party technology or (iii) enforcing and defending the licensed patents rights.

Reductions can be spread so that no payment to Licensor is reduced to less than 50% of otherwise applicable fees.].]"



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Royalties: Bundled Products

“Where the price of the Licensed Product is not separately stated (e.g., if the Licensed Product is sold with or combined with other products for a single price), Net Sales Price shall mean a portion of the resulting revenue equal to the total revenue from such combination sale multiplied by the fraction $A/(A+B)$, where A is the retail price specified in the party’s published retail price list at the time (“Retail Price”) for the amount of the Licensed Product used in the combination when distributed separately and B is the Retail Price for the amount of the other products used in the combination when distributed separately; provided, however, that if the products in the combination are not distributed separately, the amount which may be deducted shall be determined using the same formula but substituting fair market value for Retail Price.”



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Representations and Warranties

“Licensor represents and warrants that: (i) it owns all right, title and interest in and to the Licensed Property or has the necessary rights to grant the license hereunder; (ii) any and all third party consents or releases required to enable Licensor to grant the rights and licenses hereunder have been obtained”



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Representations and Warranties

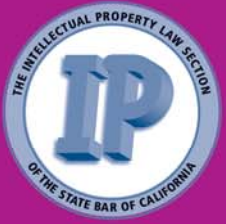
“ . . . and (iii) the Licensed Property does not violate the rights of any third party including, but not limited to, copyright, trademark, patent, and/or any other intellectual property right.”



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IP Indemnification

“Licensor agrees to defend, indemnify and hold Licensee harmless from and against any breach or alleged breach of any of Licensor’s warranties, as well as all third party claims, demands, suits, judgments, *losses*, liabilities, *damages*, costs and expenses of any nature (including reasonable attorneys’ fees and costs).”



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IP Indemnification

“If the Licensed Software becomes, or in the opinion of Licensee may become, the subject of a claim of infringement, Licensor, at its sole expense, shall either (i) procure for Licensee the right to use such Licensed Software free of any liability; or (ii) replace or modify such Licensed Software to make it non-infringing without any adverse impact on its performance or functionality.”



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Limitation of Liability

“EXCEPT WITH RESPECT TO LICENSOR’S INDEMNIFICATION OBLIGATIONS HEREUNDER, IN NO EVENT SHALL LICENSOR BE LIABLE WITH RESPECT TO ANY SUBJECT MATTER OF THIS AGREEMENT UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY AMOUNT IN EXCESS OF ONE MILLION DOLLARS (\$1,000,000).”



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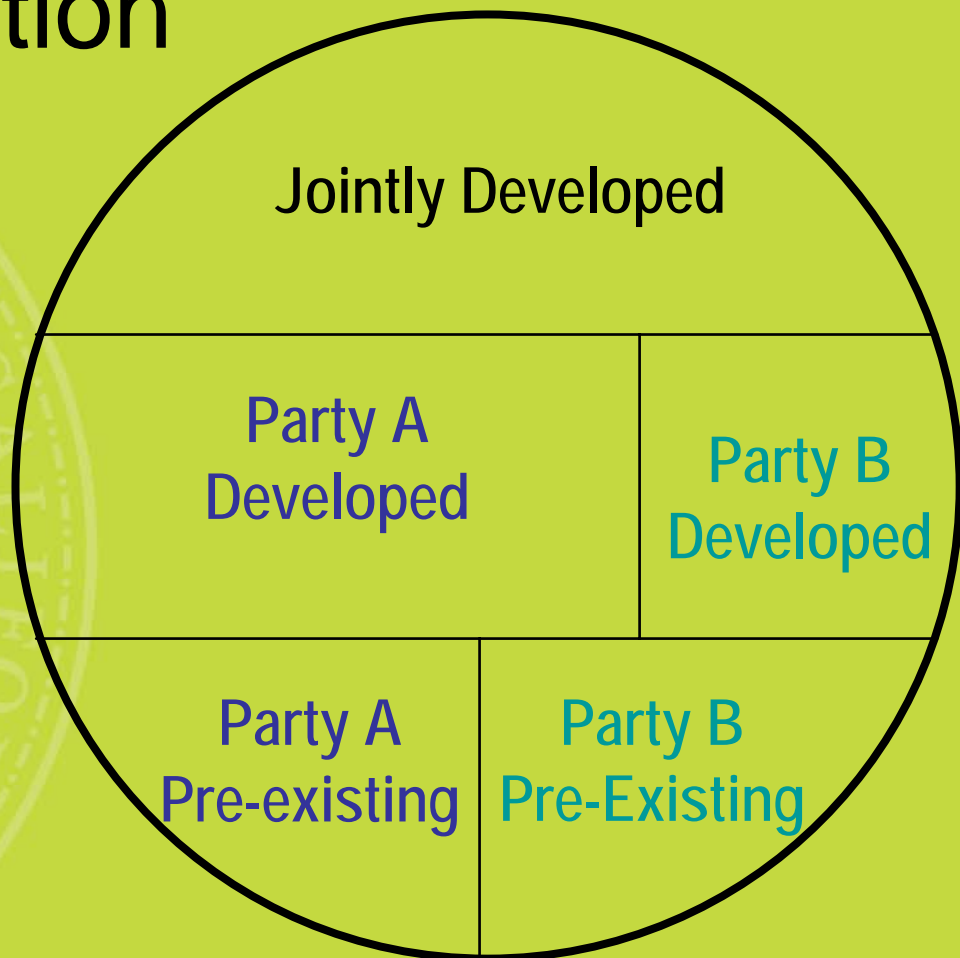
Defense of 3rd Party IP Infringement Claims

“Licensor agrees to *defend* Licensee against any claim that Licensee’s use of the Licensed Property in accordance with this Agreement infringes a valid U.S. patent, copyright or trademark and Licensor agrees to *pay all settlements* of such claims approved by Licensor and *damages awarded* against Licensee (including reasonable attorneys’ fees) by *final and non-appealable order* of a court of competent jurisdiction.”



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Ownership Allocation





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Ownership by Licensor

“Notwithstanding anything else, Licensor retains (i) all title to, and, except as expressly and unambiguously licensed herein, all rights to the Products and related documentation and materials, and all copies and derivative works thereof (*by whomever produced*).”



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Ownership by Licensor

“All intellectual property rights in Inventions and Preexisting Materials and all data, documentation and other information developed in the course of the provision of Licensed Products to Licensee hereunder will be owned by Licensor; provided, however, Licensee shall retain ownership of all Preexisting Materials of Licensee provided to Licensor in connection with the performance of the Services. Upon full payment of all applicable fees, Licensor grants Licensee a perpetual, worldwide, nonexclusive, nontransferable, royalty free license to use Preexisting Materials or Inventions contained in any Deliverable for Licensee’s business purposes.”



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Ownership by Licensor

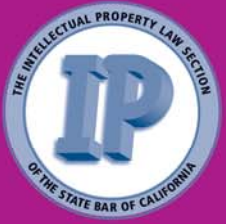
“Licensee acknowledges and agrees that, except as is expressly provided above in this Section, no right, title or interest whatsoever (express or implied) in or to any documentation, ideas, concepts, know how, data processing or other techniques used or developed by Licensor personnel (either alone or jointly with the Licensee) in connection with the performance of the Services hereunder is transferred or granted by Licensor to Licensee.”



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Ownership: Work Made for Hire

“Contractor agrees that any and all Work Product will be the sole and exclusive property of Company. Except for Contractor’s rights in the Background Technology, Contractor acknowledges and agrees that (i) any and all Work Product shall be considered “work-made-for-hire” within the meaning of Section 101 of the U.S. Copyright Act, and ownership of the entire right, title and interest in the Work Product shall reside in Company; and (ii) to the extent any of the Work Product does not qualify as a work-made-for-hire under the Copyright Act or if Contractor should otherwise be deemed to retain any rights to any of the Work Product, then Contractor shall automatically assign and transfer and does hereby expressly, unconditionally and irrevocably assign and transfer all rights, title, and interest, worldwide, in and to the Work Product, including all Proprietary Rights embodied in or relating to the Work Product. ”



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Joint Ownership

- How Does Joint Ownership Arise?
 - Patents
 - ✓ Joint Inventorship
 - ✓ Agreement/Assignment
 - Copyrights
 - ✓ Authorship of Joint Work
 - ✓ Agreement/Assignment
- Is it the best solution to agree “we jointly own it”?



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Rights of Joint Owners to Exploit: Patents

- In U.S. in absence of agreement to contrary, each owner is “at the mercy” of the other owner(s):
 - ✓ Each co-owner can make, use, sell and import the patented invention, and
 - ✓ license third parties to exploit the patented invention,
 - ✓ without consent of or accounting to the other co-owner(s)
- No co-owner can effectively grant an exclusive license



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Rights of Joint Owners to Exploit: Copyrights

- In U.S. in absence of agreement to contrary:
 - ✓ Each co-owner can exploit the copyrighted work itself, and
 - ✓ license third parties to exploit the copyrighted work without consent of other co-owner(s),
 - ✓ but must account to the other co-owner(s) for prorata share of profits



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Effect of Agreement on Rights of Joint Owners to Exploit:

- Co-owners free to vary rights by agreement, subject to antitrust and public policy
- Co-owners should expressly agree on respective rights to exploit, rather than rely on default rules
- Restrictions overriding default rights of co-owners need to be clear and explicit
- Agreements will be binding on third parties with notice, but may not bind third parties without notice
- Consider impact of bankruptcy



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Summary:

- Joint ownership may arise by operation of law, even without explicit agreement
- Joint ownership is complex and should not be established lightly and without considering alternatives (e.g. sole ownership by one party with license to other)
- If joint ownership contemplated, either by operation of law or by agreement, parties should specify rights and not rely on default rules



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Thank You.

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